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FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 2782
INFO RUEHHH/OPEC COLLECTIVE
RUEHAC/AMEMBASSY ASUNCION 0976
RUEHBO/AMEMBASSY BOGOTA 7958
RUEHBR/AMEMBASSY BRASILIA 6117
RUEHLP/AMEMBASSY LA PAZ 2868
RUEHPE/AMEMBASSY LIMA 1150
RUEHSP/AMEMBASSY PORT OF SPAIN 3678
RUEHQT/AMEMBASSY QUITO 2964
RUEHSG/AMEMBASSY SANTIAGO 4095
RUEHDG/AMEMBASSY SANTO DOMINGO 0623
RHEHNSC/NSC WASHDC
RHEHAAA/WHITEHOUSE WASHDC
RHEBAAA/DEPT OF ENERGY
RUCPDOC/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
RUMIAAA/HQ USSOUTHCOM MIAMI FL

C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000362

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD, DOE/EIA FOR MCLINE
HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR RJARPE
COMMERCE FOR 4431/MAC/WH/JLAO

E.O. 12958: DECL: 01/29/2019
TAGS: EPET EINV ENRG ECON VE
SUBJECT: VENEZUELA: OPIC-FINANCED COMPANY MAY FILE DEFAULT
NOTICE AGAINST PDVSA

REF: A. CARACAS 288
 B. CARACAS 282
 C. CARACAS 239
 D. CARACAS 214
 E. CARACAS 136

Classified By: Economic Counselor Darnall Steuart, for reasons 1.4 (b) and (d).

11. (C) SUMMARY: U.S. concern Williams is poised to file one to three default notices against PDVSA on projects financed by OPIC. PDVSA's on-going financial crisis makes it unlikely it will be able to pay arrears to Williams. Given recent actions taken against other companies that have issued default letters to PDVSA or sought to halt drilling or other services for lack of payment, it is possible the GBRV could move to nationalize these oilfield projects. END SUMMARY.

12. (C) On March 18, Econ Counselor and Petroleum AttachQ met with Teresa Palacios (strictly protect throughout), Wilpro Energy Services' Country Manager (NOTE: WilPro is a subsidiary of Tulsa-based U.S. energy concern Williams). Wilpro operates three projects in Venezuela with OPIC financing. PDVSA owes Wilpro over \$100 million. PDVSA issued a token payment in Bolivars (per Palacios it was 8% of the receivables due as of December 31, 2008) the week of March 16. Palacios confided that Williams is likely to send at least one (and possibly two or three) default letters to PDVSA as early as the week of March 30 (following a Williams Board of Directors meeting the week of March 23). PDVSA would have 30 days to rectify the situation. The three OPIC-financed projects are:

- Accroven: Has both OPIC and EXIM financing: This is a natural gas liquids extraction and processing project located in the Eastern Cryogenic Complex in Jose. It includes two natural gas liquids extraction plants, a natural gas liquids fractionation plant and associated storage and refrigeration facilities.

- PIGAP II - OPIC and SACE (Italy) financing: This is a high-pressure gas plant that injects between 1.2-1.4 billion cubic feet of natural gas per day into PDVSA's Santa Barbara-Pirital fields. This may be one of the largest plants of its type in the world.

- El Furrial - 70% OPIC financing: This project injects gas at high-pressure into the El Furrial reservoir for tertiary oil recovery. This project supports production of some of PDVSA's most valuable light crude.

¶3. (C) On March 19, EconOffs met with a local attorney who provides legal services to Wilpro. She confirmed that, since the PDVSA payments crisis began, other companies have filed default letters to which PDVSA has not reacted. She observed that if Williams sends the default letters, PDVSA could (1) take corrective action (i.e., pay its arrears), (2) exercise its contractual right to repurchase the plants from Williams (each is valued in excess of \$500 million), or (3) seize the assets and force Williams to file for international arbitration to seek compensation. The attorney observed that Wilpro's three projects are in different states of financial hardship and that only two of the three have contractual clauses providing for international arbitration in New York. She observed that Accroven is in the worst financial state.

¶4. (C) COMMENT: Williams' challenges in eastern Venezuela mirror those of the Wood Group in western Venezuela (see Reftels). If Williams' files default letters against PDVSA, it is possible that the GBRV might move to nationalize the

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projects. Williams, however, has worked hard to maintain a good working relationship with PDVSA. The company also has prior experience in bringing a successful international arbitration case against PDVSA (the 2003 SWEC case which followed the nationalization of the loading terminal at the Jose Industrial Complex during the December 2002-February 2003 oil strike). PDVSAQ's ability to assume operation of the water and gas injection services of the Wood Group and Williams respectively is doubtful. The technology involved in the Wilpro projects, however, is markedly more complex than that used by the Wood Group and that would, we assume, enter into any calculation to nationalize the plants. A take over of these facilities would undoubtedly affect future oil production.

CAULFIELD